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## **CHINA AGROTECH HOLDINGS LIMITED**

**浩倫農業科技集團有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**(stock code: 01073)**

### **CLARIFICATION ANNOUNCEMENT**

China Agrotech Holdings Limited (the “Company”) makes this announcement pursuant to the request of The Stock Exchange of Hong Kong Limited.

The Company refers to its final results announcement dated 30 September 2011 which contained the section headed Extract of Independent Auditor’s Report on the Company’s Consolidated Financial Statements for the Year Ended 30 June 2011 (the “Extract”). The Company hereby discloses in detail certain matters referred to in the qualified opinion of the Extract as follows:

#### **(1) Litigation**

On 16 May 2011, Taiyuan Fafuyuan Technology Limited (translated from Chinese name of 太原法福源科技有限公司) (the “Plaintiff”) filed a writ (the “Writ”) at the middle court of Taiyuan City, Shanxi Province (the “Court”) against Shanxi Astro-Wood Bio-Engineering Development Co., Ltd. (山西天行若木生物工程開發有限公司) (“Shanxi Astrowood”), a wholly-owned subsidiary of Present Sino Limited (“Present Sino”) which is a subsidiary of the Company. Shanxi Astrowood holds certain Lacebark Pine plantation base in Shanxi Province (the “Plantation Base”) which it acquired for approximately RMB14,998,000 (the “Asset Consideration”) from the Plaintiff through three asset transfer contracts all dated 12 April 2010 (the “Contracts”). The relevant forest rights transfer registration was duly completed. The Company completed the acquisition of the entire interest in Present Sino on 1 November 2010.

The Plaintiff claimed that (i) in entering into the Contracts, Shanxi Astrowood had induced the Plaintiff to sell at extremely low prices and the Plaintiff was subsequently aware from the Company’s announcement that the Company proposed to acquire the entire interest in Present Sino (at a consideration of HK\$1 billion), and (ii) the Asset Consideration was not fully paid for. The Plaintiff requested the Court to cancel the Contracts and return the Plantation Base to the Plaintiff.

\* *for identification purposes only*

On 17 May 2011, the Court issued an order (the “Court Order”) sealing up the Plantation Base for a period of two years from 18 May 2011 to 17 May 2013 pending trial by the Court. As a result of the Court Order, Shanxi Astrowood is not able to transfer, sale, change register, pledge or perform other similar activities in respect of the Plantation Base. The total fair value less costs to sell of the underlying biological assets amounted to approximately HK\$832,042,000 as at 30 June 2011.

The Company immediately sought legal advice in respect of the Writ and the Court Order and obtained a formal legal opinion letter dated 30 September 2011. The legal advisor opined that the allegations were groundless that (i) the sale of Present Sino’s shares to the Company that took place few months afterwards had no bearing to the quantum of the Asset Consideration; (ii) the Contracts were bona fide and (iii) according to bank payment records, the Asset Consideration had been substantially paid (RMB14,900,000) to the Plaintiff. The legal advisor concluded that the Court should rebut the Writ.

The board of directors (the “Board”) of the Company is of the opinion that the temporary seal up of the Plantation Base does not have any material negative impact on the Group as the operation of the Plantation Base is yet to commence and the unwinding of the Court Order is a matter of application procedures subject to court acceptance which involve depositing guarantee money of not more than the Asset Consideration to the Court and no obstacle is expected in respect thereof. Upon unwinding the Court Order, Shanxi Astrowood can resume all its rights to the Plantation Base.

Also, according to legal advice, the prohibited activities underlying the Court Order are aimed at sale or pledge of the whole Plantation Base (involving a transfer of the relevant forest rights in whole), which is not the intention of the Company regardless of whether a seal up order is in place. On the other hand, Shanxi Astrowood can still carry out normal operating and maintenance activities not belonging to those prohibited behaviours. Further, the Plantation Base is not pledged for any loan and it is not expected that the Plantation Base is an acceptable security for the purpose of financing with normal market interest rates. Hence, the litigation and the seal up Court Order do not affect the operation and financial performance of the Group.

On 21 October 2011, the Court was held to hear the case and both parties to the litigation made their confessions. Upon the submission of further evidence as requested, the Court will notify both parties the date of the second trial. The Company will publish further announcement in respect of any important development of the litigation.

## **(2) Financial guarantees**

As part of the audit procedures, the Company’s auditors requested for bank system printouts of bank loan card (the “loan card”) information of certain of the Company’s PRC subsidiaries which had bank borrowings as at the reporting date of 30 June 2011. A loan card printout shows, inter alia, bank loan/guarantee information of a PRC entity, if the PRC entity has obtained bank credit facilities at any PRC bank, regardless of whether the bank credit facilities are existing or expired. The loan card information printout can be requested at any of those PRC bank branches which granted credit facilities to the PRC entity and is generated from a central database system. However,

the system-generated information, which originates from the key-in and upload by staff of those bank branches which had made credit facilities to the PRC entity, may not reflect the entirely correct and updated picture of the borrowing/guarantee details of the PRC entity due to incorrect data input by human mistakes or certain outdated information relating to settled bank loans not yet cleared up, or even non-input of existing loan/guarantee information.

In the case of the Company, for the loan card printout of one of the Company's PRC subsidiaries (the "Relevant Subsidiary"), the printout information regarding guarantees provided by the Relevant Subsidiary to external parties (the referral of "external parties" also included the Company's other subsidiaries which are treated as "external parties" from the perspective of the loan card printout of the Relevant Subsidiary) contained certain incorrect information and hence, in the opinion of the Company, should not be wholly relied upon. The incorrect information includes:

- (a) certain guarantees appeared as provided by the Relevant Subsidiary to external parties as shown on the loan card printout are in fact not related to the Relevant Subsidiary, which is the subject of the qualified opinion of scope limitation in the auditor's report;
- (b) certain guarantees which the Relevant Subsidiary did provide to other fellow subsidiaries and should be, but was not, reflected in the loan card printout;
- (c) for those other guarantees reflected in the printout, which are related to guarantees provided by the Relevant Subsidiary to other fellow subsidiaries, comprise both expired and existing guarantees. It also included expired guarantees provided by the Relevant Subsidiary to a former joint venture company disposed of a few years ago.

Therefore, the Company considered the loan card printout can only be used as auxiliary information for reference only, but should not be relied upon as accurate evidence due to its inherent defects. However, due to the absence of other adequate information for proof to the contrary, the Company is unable to satisfy the auditors that those guarantees referred to in (a) above are not related to the Group, and hence, the auditors issued a qualified opinion of scope limitation in this respect.

The Company, through the Relevant Subsidiary, endeavors to request the relevant bank branches to rectify the incorrect information contained in the central database so as to reflect a true and updated borrowing/guarantee situation of the Relevant Subsidiary.

Made by the order of the Board of China Agrotech Holdings Limited, the Board of directors of which individually and jointly accept responsibility for the accuracy of the content of this announcement.

**Shareholders of the Company and the potential investors are advised to exercise caution when dealing in the shares of the Company.**

By order of the Board of  
**China Agrotech Holdings Limited**  
**Wu Shaoning**  
*Chairman*

Hong Kong, 25 October 2011

*As at the date of this announcement, the Executive Directors of the Company are Mr. Wu Shaoning and Mr. Yang Zhuoya, and the Independent Non-executive Directors are Mr. Lam Ming Yung, Mr. Zhang Shaosheng and Mr. Wong Kin Tak.*